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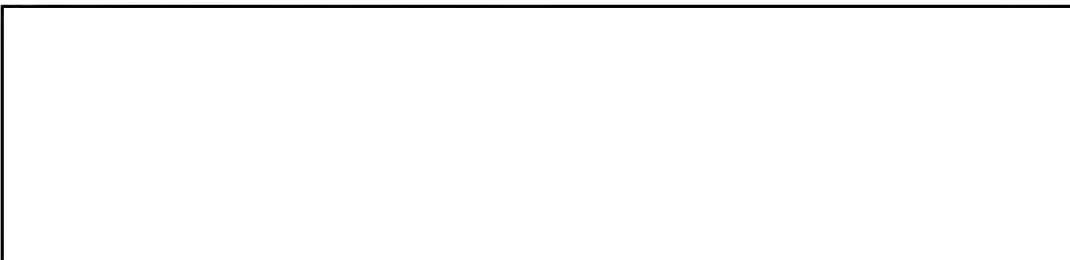
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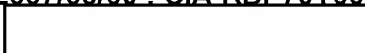
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LEBANON

Leftist political groups in Lebanon, led by Socialist Party chief Kamal Jumblatt, are becoming more vocal in opposing the new cabinet of Prime Minister Karami. Five leftist parties issued a joint statement Thursday denouncing the cabinet as reactionary chiefly because it includes prominent right-wing Christian leader Camille Shamun as interior minister.

Jumblatt, who also held a meeting of his own Progressive Socialist Party Thursday, announced that he will oppose the Karami government for similar reasons, but he gave Karami himself a back-handed compliment, noting that the Prime Minister is his only friend in the cabinet.

Jumblatt, who is still adamant in his demand that Lebanon's governing system be modified, did say that he will contribute to efforts to maintain security. Jumblatt and the other leftist leaders are likely at least for now to use peaceful means in opposing the government.

Security authorities announced early yesterday that mop-up operations against pockets of radicals in the troubled Shiyah district of Beirut had been completed and that the city had returned to "normal." Isolated sniping and bombing incidents had occurred in the Shiyah area since the cease-fire on Tuesday.

A spate of kidnappings since the cease-fire is causing concern in the government and was the chief topic of discussion at the new cabinet's first meeting on Thursday. The government is worried—and Interior Minister Shamun publicly warned after the cabinet session—that continued incidents of this sort could quickly provoke new fighting.

Some fighting continues in other areas of the country, particularly in the northern port city of Tripoli. After several nights of clashes, representatives of the contending factions reportedly agreed with the governor on Thursday to abide by the cease-fire. Fighting broke out again Thursday night, however, and security forces were called in to quell it. [REDACTED]

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ISRAEL

Israel so far has not reacted militarily to the fedayeen bombing in Jerusalem yesterday. The attack, among the worst since Israel's independence, killed 13 and injured at least 72.

Tel Aviv presumably is torn between its standing policy of immediate retaliation against fedayeen bases in southern Lebanon and its more recent policy of conducting a general campaign against terrorism that is not keyed to reprisals for specific incidents. Prime Minister Rabin is under great domestic pressure to strike back hard, but mindful that such a move could play into the Palestinians' hands by making Egypt less willing or able to pursue another Sinai peace agreement.

Israel did not retaliate for the Palestinian attack on Tel Aviv last spring, which was designed to subvert Secretary Kissinger's efforts to facilitate an Israel-Egypt accord. That attack resulted in fewer casualties—but like yesterday's incident—was symbolically important as a demonstration of the fedayeen ability to strike at the heart of Israel.

At a minimum, the Israelis this time will implement still more stringent security controls on the occupied West Bank. The Palestine National Front and the Popular Democratic Front for the Liberation of Palestine both have embryonic political organizations on the West Bank, and several of the other fedayeen groups have the ability to mount occasional terrorist attacks there.

Leaders of the Palestine Liberation Organization, who are feeling insecure amid signs that Egypt may be prepared to reach a new agreement with Israel, have claimed responsibility for the incident in Jerusalem. They consider that the attack will complicate Egypt's negotiations with Israel and the other Arabs and draw world attention to the Palestinian cause.

PLO chairman Yasir Arafat is especially eager to reaffirm his revolutionary credentials at this time to protect himself against Libya's recent efforts to draw dissident fedayeen away from his influence and into the radical "rejection front." President Qadhafi has had only limited success so far, but has induced at least one group that usually backs Arafat's policies—the Popular Democratic Front—to adopt a somewhat more independent line.

Arafat is also eager to distract attention from the constructive role he played in ending Lebanon's most recent round of civil unrest. Any sign that Palestinian leaders are cooperating with Lebanon's conservative Christian president is unpopular among rank-and-file fedayeen. [REDACTED]

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LAOS

Tensions in Vientiane appear to have eased somewhat.

The major demonstrations anticipated by the US charge against the American embassy compound have thus far failed to materialize. Pathet Lao troops and communist-inspired protesters still occupy several American installations in the Lao capital, but yesterday they returned control of one—the USIS headquarters—to US officials.

Meanwhile, an official spokesman for the communist-dominated coalition government publicly announced that Pathet Lao Deputy Prime Minister Phoumi Vongvichit and communist Information Minister Souk Vongsak were going "abroad" for "medical treatment." He did not say where they were going or for how long. Phoumi was reportedly scheduled to leave Vientiane yesterday.

The spokesman also announced that Pathet Lao Economics Minister Soth Phetrasy would be leaving Vientiane shortly for a "rest" in Sam Neua. He declined to speculate on any temporary or permanent replacements for the departing cabinet ministers.

Prime Minister Souvanna Phouma, who—along with communist leader Souphanouvong—is presently conferring with the King in Luang Prabang, recently told the charge that Phoumi had suffered a mild heart attack last month while attending a three-week strategy meeting of the Lao Communist Party Central Committee in Sam Neua. British Ambassador Davidson, after conferring with Phoumi on July 1, came away convinced that he was indeed ill. Phoumi, in fact, spent the first ten minutes of their conversation talking about his health problems. He said that he had recently been hospitalized in Sam Neua for a week and that he planned to take a one to two month rest.

Phoumi indicated to Davidson that Souk Vongsak was also "sick," and hinted that communist headquarters in Sam Neua might soon be sending new officials to Vientiane to take charge of their respective ministries. He did not elaborate.

Phoumi's illness appears to be genuine, but we have no independent corroboration of Souk's alleged sickness. Soth Phetrasy could be going to Sam Neua merely for a vacation, but it is equally possible that communist headquarters may have decided to replace the totally ineffectual economics minister with a more competent official.

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Although hard evidence is lacking, it is also reasonable to speculate that the hard-line Pathet Lao leadership in Sam Neua—led by Central Committee bosses Kaysone Phomvihan and Nouthak Phoumsavan—may have simply decided to relieve all three coalition ministers. The hardliners may have calculated that Phoumi's, Souk's, and Soth's moderate political image, which served communist interests well over the past year, is no longer necessary or useful to their effort to consolidate total control over the coalition government. [REDACTED]

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ITALY

Christian Democratic leader Fanfani suffered a major setback this week in the meeting of the party directorate—the Christian Democrats' 44-member executive body—when center and leftist factions joined in calling for an early reassessment of the party's leadership and strategy.

The Christian Democratic left—about a fifth of the party—has been calling for Fanfani's resignation and an immediate reassessment of party policies since the Communist Party scored unprecedented gains in regional and local elections three weeks ago. To back up their demand, the left-wingers had resigned from the directorate and threatened to bring down the Moro government by giving up their cabinet posts.

Fanfani tried this week to postpone a leadership and policy review until the party's national congress, which he wanted to convene in the fall.

During the directorate meeting, however, the party's two major centrist factions—representing close to 50 percent of the party and dominated by such figures as Foreign Minister Rumor, Budget Minister Andreotti, and Treasury Minister Colombo—joined the left in opposing Fanfani's delaying tactics. Instead, they decided to begin the policy debate on July 19 at a meeting of the Christian Democratic national council, the party's principal deliberative body. The centrist spokesman also insisted that the left-wing factions be allowed to participate, despite their resignations from the party executive. Any attempt to cut out the left, they emphasized, would hinder the party's ability to reinforce its ties with youth and organized labor.

The directorate also agreed to leave the Moro government in place for the time being. The party's left-wing ministers are not likely to follow through on their threat to drop out of his cabinet now they have achieved their goal of an early review of Christian Democratic policies.

The defection of the Christian Democratic center factions means that Fanfani has lost his majority in the party. It is now probably only a matter of time before he resigns or is eased out of the top post. His fate may be determined in two weeks at the national council meeting, but, in any event, he is not likely to outlast the Christian Democratic congress that will probably be held in the fall.

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PORTUGAL

Faced with mounting criticism of Portugal's ruling Armed Forces Movement and increasing social unrest, President Costa Gomes yesterday appealed to the Portuguese people for calm and a rededication to the country's socialist revolution. Meanwhile, the army assembly has called on the ruling Revolutionary Council to reassert its authority over the nation's affairs.

Costa Gomes told a nationwide radio and television audience that Portugal has been swept in recent days by rumors that are leading to an "unhealthy climate of agitation and anxiety." The rumors—which allege irreconcilable differences within the Armed Forces Movement—can only serve counterrevolutionary interests, he said.

Although admitting that differences of opinion exist among the country's leaders, he insisted they are united in their actions, determined to defend order and firm in their resolve to see the revolution emerge victorious. He said the most pressing need was for the Portuguese people to stop discussing the country's problems and get back to work.

The President's address followed an appeal from the 120-member army assembly to the Revolutionary Council to reassert its leadership. The assembly, one of three military branch advisory bodies within the Movement, urged the Council to show "sufficient firmness" and said the re-establishment of the Council's authority was "urgent and indispensable."

Costa Gomes' remarks and the army assembly's appeal have been prompted by a recent wave of strikes and increasing outbursts of civil disobedience, coupled with the Revolutionary Council's seeming inability to make decisions on critical issues and stick to them.

Recent instances of the Council's equivocation have been the case of the socialist newspaper *Republica* and the controversy over the Church radio. In both cases the Council has been forced to retreat from its announced policy because of pressure from extreme leftists.

The habit of the Council of backing down in the face of opposition in part results from its desire to appear to be on the side of the workers. The policy reverses also illustrate the shifting nature of the three major factions within the 30-member Council. These factions are:

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- Six communist sympathizers, led by Prime Minister Goncalves.
- Thirteen left nationalists, led by Admiral Rosa Coutinho and General Otelo de Carvalho.
- Nine democratic socialists, led by President Costa Gomes, Foreign Minister Antunes, and the chiefs of the three armed services.

A newly formed 11-man central committee of the Council, which sees to the Council's day-to-day business, does not have the same factional breakdown. The moderate democratic socialists appear to have five members on the central committee, compared to four for the left nationalists and only one communist sympathizer, Prime Minister Goncalves. One appears to be an independent.

The factions, however, line up differently on various issues, and only a few individuals are solidly committed to any particular line.

The Revolutionary Council is clearly in the throes of a deepening leadership crisis. Buffeted from all sides, its collegial membership, which has consistently striven to solve Portugal's worsening problems by consensus, may be reconsidering the wisdom of collective leadership. The unprecedented call from the army assembly for the Council to set its house in order apparently reflects a growing disenchantment within the military itself and could be a harbinger of change in the Council's collective decision-making process.

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UK

Prime Minister Wilson has come under fire from left-wing Laborites for what they consider to be violations of the party's election manifesto. Their primary complaints are centered on the government's threat to impose limits on wage and price increases, Britain's EC relationship, and the industry bill.

After the government announced its threatened anti-inflation measures, some members of a small, but vocal, left-wing labor group prepared a letter denouncing the government. Reaction of trade union leaders, an important element in the Labor party, was mixed but, as expected, the more militant leaders denounced the government's intentions. Right-wing Laborites were extremely pleased with the government's action.

Wilson's hope that the issue of Britain's European connection had been settled by the favorable outcome of the EC referendum has been shaken for the moment. Belgian Prime Minister Tindemans—who is in London this week for discussions on the future directions of the EC—renewed the controversy when he told a group of government and parliamentary Labor Party members that economic and monetary union and a directly elected parliament should be the first and most immediate steps toward political unification of Europe. Other initiatives leading to this goal would have to be pursued and the EC would expect Britain to play a leading role.

Left wingers and anti-marketeers professed to be outraged. They accused Wilson and Foreign Secretary Callaghan of deceit in the statements the two leaders had made before the referendum, particularly their claim that "economic and monetary union will not become a reality in our lifetime." Ian Mikardo, a leading left winger who was highly critical of Wilson during the referendum campaign, commented that although he had accepted the outcome of the referendum and had opted not to conduct "guerrilla warfare from the backbenches," he would have to reconsider in light of Tindemans' remarks. Wilson and Callaghan probably will remind Mikardo that they told the EC heads of government before the referendum that they did not favor European Union.

Wilson is likely to become increasingly unpopular with left-wing Laborites as he tries to deal with the country's deteriorating economic situation. The left wing, however, faces a dilemma in deciding whether to try to dump him. They certainly prefer Wilson to a Tory prime minister and they readily admit that his greatest strength as party leader is the lack of a viable alternative. A left-wing assault against Wilson will rally the right wing and moderates behind him.

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The industry bill has provoked several stormy parliamentary sessions, and aroused a great deal of concern among potential investors. Among other things, it calls for disclosure of company information to the government and the trade unions and establishes a National Enterprise Board, which will acquire equity in companies on the financial ropes. [REDACTED]

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NORWAY

The Norwegian government committee appointed in 1974 to study continental shelf problems has recommended that a coast guard organization be formed. It would be responsible for North Sea search and rescue, environmental protection, as well as fisheries patrol operations and may also be tasked to provide protection for oil operations under way there. The Norwegians have been concerned over possible sabotage to their oil facilities in the North Sea and would like to provide some protection for these resources.

The new 680-man organization would be developed from the existing Naval Fisheries Surveillance Service and be under navy administration. Annual operating cost is estimated at \$23 million.

The USSR has warned against any attempt to establish NATO jurisdiction in the area. Norway's Foreign Minister Frydenlund has suggested cooperation among Norway, Denmark, the Netherlands, the UK, and West Germany outside the Alliance, and initial discussions to this end have been held. [REDACTED]

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CSCE

Agreement was reached yesterday at the European security conference on the major remaining substantive difference between East and West on military-related confidence-building measures. Informal efforts are now being made in an attempt to reach agreement on the date for a summit finale.

The British, representing NATO, and the Soviets agreed that provisions concerning the advance notification of military maneuvers would apply in a 250-kilometer zone along Soviet frontiers with other participants in the security conference and along the Baltic and Black Sea coasts. Both sides have made a series of compromises on this issue; final agreement was possible when the West Germans gave up their demand for a 275-kilometer zone.

The remaining provisions of the agreement, which had been reached earlier, place the threshold for notification at 25,000 troops; amphibious and airborne troops are to be counted in any combined exercises with regular ground forces. Notification will be given 21 days in advance of the maneuvers. All these provisions will be voluntary, as the Soviets insisted.

The British were largely responsible for the agreement, which has now been accepted by Denmark, Canada, France, Norway, West Germany, and Portugal, as well as the US. Italy, Belgium, and the Netherlands have put off a decision, and the Turks will not agree until satisfied on their demand for a special clause exempting the southern region of Turkey from inclusion in the provisions.

The Soviet acceptance should pave the way for resolution of all remaining East-West problems in this area.

French objections to a Swedish proposal on follow-up measures for the conference provide one more problem. The French remain steadfast in opposing follow-up meetings or a possible second conference.

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NORTH YEMEN - USSR

North Yemen's President Hamdi has decided to accept a long-standing Soviet military-assistance offer after concluding that the Saudis do not intend to fulfill their promise to help modernize the North Yemeni army.

Foreign Minister Abdallah al-Asnag says an announcement will be made Wednesday in Sana that Hamdi will make a state visit to the USSR in early August. Asnag added that Moscow has agreed to give Sana "major quantities" of modern arms, including MIG 21s, heavy tanks, antiaircraft guns, artillery, and rockets.

Asnag says that Sana had hoped to reduce rather than increase its dependence on Soviet arms, but that his government cannot purchase US or other Western arms without financial assistance. After waiting nearly two years for the Saudis to provide a promised grant of \$200 million to purchase US arms, the North Yemenis have concluded that the money will not be coming. Sana believes that the Saudis prefer to keep North Yemen militarily weak.

The North Yemenis have disclosed their intention to acquire Soviet arms in the hope it may convince the Saudis to provide the money.

An arms accord with the Soviets would have an important impact on North Yemen's relations with Saudi Arabia and, as a result, on North Yemeni domestic affairs. Some members of the Saudi government, particularly Minister of Defense Prince Sultan, distrust President Hamdi and have long supported his conservative enemies. They will probably now cite Hamdi's trip and the arms accord as vindication of their position and push for a resumption of Saudi subventions to conservative North Yemeni tribal leaders.

After the Saudis agreed earlier this year to support the government in Sana, Hamdi was able to neutralize the conservative tribal leaders as well as other political opponents. [REDACTED]

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ARGENTINA: A 48-hour general strike in Argentina has been called for midnight Sunday by the Peronist labor confederation. This move follows a government decision to rescind negotiated wage hikes.

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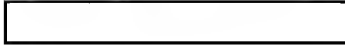
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